

**TOWN OF MIDDLETOWN**  
**AGREED-UPON PROCEDURES ON MUNICIPAL GRANTS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

**TOWN OF MIDDLETOWN  
INDEX  
FOR THE YEAR ENDED JUNE 30, 2005**

---

	<u>PAGES</u>
Independent Accountant's Report on Applying Agreed-Upon Procedures	1 - 2
Schedule of Municipal Grants	3

DAVID R. URIAN, CPA  
DAVID C. DOANE, CPA  
CHARLES H. STERNER, JR. CPA, CVA  
SHELDON L. FORNEY, CPA  
JAY M. STEVENS, CPA, PFS  
ROGER R. REED, CPA  
ELAINE E. GRAVES, CPA

TRUITT W. JEFFERSON, CPA, DIRECTOR  
RETIRED

ANITA Y. SMITH, MEd, DIRECTOR

## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Town of Middletown  
19 W Green Street  
Middletown, Delaware

We have performed the procedures enumerated below, which were agreed to by Town of Middletown and the State of Delaware's Office of the Auditor of Accounts, Department of Homeland Security, and the Office of the State Treasurer, solely to assist you with respect to determining the Town's compliance with Delaware's applicable laws, regulations, financial reporting and the effectiveness of the internal control structure related to the municipal grant funds received for the year ended June 30, 2005 on Page 3. The Town of Middletown's Management is responsible for compliance with those requirements. This agreed-upon procedures engagement was performed in accordance with *Government Auditing Standards* (2003) issued by the Comptroller General of the United States and the attestation standards established by the American Institute of Certified Public Accountants that have been incorporated by *Government Auditing Standards* (2003). The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. Document understanding of cash disbursement internal control structure over municipal street aid grant funds from discussion with management and report internal control weaknesses.

FINDING NO. 05-1 - During completion of the Town of Middletown's program checklist for the municipal street aid grant, it was noted that their cash internal control structure over municipal street aid grant funds has a weakness due to the fact that there is no independent review of the bank account reconciliation. An independent review of the bank statement and reconciliation will improve the Town's cash internal control. Segregation of duties reduces the risk that one person could perpetrate and/or conceal errors in the normal course of his/her duties.

RECOMMENDATION - The Town should segregate duties related to cash among different Town board members so that additional controls over the Town's municipal grants can be established.

### TOWN'S PLAN FOR CORRECTIVE ACTION:

*"The cashiers make all deposits; Town Clerk receives copy of check. Financial Director opens and reviews bank statements prior to reconciliation. Town Clerk records deposits however Accounts Payable clerk handles the disbursements. Checks are signed by the Mayor and a Councilperson. Please note that the review process was not implemented until after the auditors review."*

2. Complete the State of Delaware Auditor of Accounts municipal grants agreed-upon procedure program to determine the Town's compliance with applicable laws, regulations and financial reports related to municipal grant funds received during the year ended June 30, 2005. Detail any instances of noncompliance.

FINDING NO. 05-2 - During completion of the Town of Middletown's program checklist for the municipal street aid grant, it was noted that their financial documents and transactions were administered in accordance with the applicable laws and regulations, and that their financial report was submitted timely to the Office of the State Treasurer, but the financial report was not accurately prepared or reviewed [30 Del. C. §5165(b)(2)]. The beginning and ending cash balance was understated by \$ .02 and \$ .42, respectively, and the other expenditures overstated the net bank charges by \$ .40. The accurate preparation of the annual report is an important requirement of the grant.

RECOMMENDATION - The Town should more carefully prepare and review the amounts on the annual report to ensure an accurate presentation.

TOWN'S PLAN FOR CORRECTIVE ACTION:

*"The .42 difference was due to mistakes made in checkbook in previous years and not corrected. Adjustment entries were made in the checkbook and the general ledger in order to reconcile the account to the bank statement causing the difference in the MSA report balance."*

3. Note all situations or transactions that could be indicative of fraud, illegal acts, material errors, defalcations, irregularities or gross violations of the grant agreements and abuse or misuse of State funds.

During completion of the program checklist, no fraud, illegal acts, gross violations of provisions of contracts or grant agreements and no abuse or misuse of state funds were noted.

4. Prepare the Town's Schedule of Municipal Grants received during the year ended June 30, 2005.

See Page 3.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the Town's compliance with Delaware's laws and regulations, financial reporting and the effectiveness of the internal control structure related to municipal grant funds. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information of the Town of Middletown's Management and Council Members, Department of Homeland Security, Office of the State Treasurer and Office of Auditor of Accounts, and is not intended to be and should not be used by anyone other than those specified parties. However, under 29 Del. C. §10002(d), this report is a public record and its distribution is not limited.

*Jefferson, Ulan, Doane & Starnes, P.A.*

Georgetown, Delaware  
February 6, 2006

**TOWN OF MIDDLETOWN  
SCHEDULE OF MUNICIPAL GRANTS  
FOR THE YEAR ENDED JUNE 30, 2005**

---

- 3 -

<u>Grants</u>	<u>Amount Received</u>
Municipal Street Aid	\$ 261,798.08
Police Pension	-
State Aid to Local Law Enforcement	-
Emergency Illegal Drug Enforcement	-

See independent accountant's report on applying agreed-upon procedures.